

**National Credit Union Administration
Board Member Debbie Matz**

**Speech to
National Association of Federal Credit Unions
38th Annual Conference
“Raising the Stakes”
Las Vegas, Nevada
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Thank you, John... It's wonderful to be at NAFCU's Annual Conference once again.

My three and a half years on the NCUA board have flown by and there's no doubt about it -- this is the best job! In large part it's because credit union people are special and getting to know so many of you has been an incredibly fulfilling experience. This is especially true of the NAFCU staff and board.

As I think you all know, NAFCU has an extraordinarily talented staff. Fred Becker and I have worked side-by-side on many issues and he has been a full partner in my PALS initiative. Fred's personal involvement helped ensure the success of these workshops.

In Bill Donovan and Gwen Baker, NAFCU has two of the finest lobbyists anywhere. Now I know some of you think “fine lobbyist” is an oxymoron. But then you probably don’t know Bill and Gwen. They have a remarkable knowledge of credit union issues, they can be relied upon to provide honest and accurate information, and they always keep their word. In a town where these qualities are in short supply, Bill and Gwen are a welcome relief.

I’d also like to recognize the NAFCU Board. I have come to know each of the NAFCU Board members personally and they are, indeed, the pillars of the credit union community. Because they set a very high bar for excellence and commitment, I wasn’t surprised to learn that they had elected Mike Vadala as the incoming chairman.

There might be one or two people around who have more energy, creativity and heart than Mike, but I haven’t met them! Mike’s enthusiasm is infectious – and I caught the bug last October when we worked together on the Rochester PALS workshop. When Mike suggested the workshop and said he

would arrange for Senator Clinton to be the keynote speaker, I said “Sure you will”, never giving it a second thought. But he did, and he did a lot more.

When Senator Clinton challenged New York credit unions to make a large financial commitment to serving the underserved, Mike met this challenge head-on! He organized a statewide effort and raised \$150 million to fund affordable mortgages in underserved areas.

Mike, you’re one in a million and I wish you all the best in your new role as NAFCU Chairman. You’ll have a tough act to follow, because Diane Furnas has done an outstanding job chairing NAFCU for the past two years...

Again, I want to thank Fred for inviting me to address this conference. I’ve had the privilege of addressing this conference each year I have served on the NCUA Board; and I look forward to it each time. It is truly one of the best credit union conferences – and I feel qualified to say that, because I’ve been to so many.

It's not just because it's so well run and has an amazing line-up of speakers, or because it's held in great places or because world-class entertainment is provided. On top of all that, it's given me an opportunity to get to know and learn from some of the smartest people in the credit union business: YOU!

In fact, notwithstanding the terrific board and staff, the best part of NAFCU is its members. For me, getting to meet and talk with the members is really the best part of these meetings.

That's because I've learned so much from you. The knowledge and experience in this room is extraordinary. And you have all been extremely generous in sharing your expertise with me. I have tried my best to translate what I have learned from you into policies that will help all credit unions perform their best well into the future.

The first, and perhaps most important, lesson I learned is that when it comes to member service and fulfilling the statutory mission of serving "people of modest means," credit union size is not relevant.

Through you, I learned that credit unions of all sizes are doing wonderful things to serve their members and help their communities.

I learned that both small and large credit unions demonstrate a commitment, every day, to the credit union philosophy of “people helping people”.

I quickly learned that commitment to the credit union ideal and dedication to service are what matters, not size. I knew then that it was important to change our field of membership regulation.

I understood that credit unions needed the flexibility to reach beyond occupational groups and associations and into their communities, if they were to continue to grow and flourish. In addition, when credit unions are able to diversify by serving a wider membership base, they effectively spread out their risks and protect their safety and soundness.

The NAFCU staff also convinced me that federal credit unions were at a competitive disadvantage because often state charters could add new membership groups more easily. In fact,

NCUA's regulation was hampering your ability to grow your membership.

Ultimately, I realized that easing the restrictions on community charters would permit more people to join credit unions, thus becoming eligible for affordable financial services. There was no doubt in my mind that that would be a good thing!

So revising our field of membership regulation was one of the first major policy initiatives I supported at NCUA. Our revised regulation enables federal credit unions of all sizes to responsibly expand their membership field to address previously unforeseen needs. This is a lifeline for small credit unions that need to diversify beyond a single sponsor, and a tremendous opportunity for larger credit unions to reach out to new members throughout their community.

Since our charter change, 315 federal credit unions have converted to community or TIP charters, making 146 million people eligible for credit union membership. I'm extremely proud of that. And for your role in making it happen, you should be proud, too.

But having expansive charters isn't effective if you don't have the necessary tools to attract new members. So I listened when you told me that you needed expanded authority to make member business loans. This became one of my top priorities when I learned that the NCUA Board had been granting waivers for state business loan rules that allowed more flexibility than our own federal rule. It made no sense to me that state-chartered credit unions were gaining greater business lending powers which we were denying to federal credit unions!

So I asked NCUA staff to examine the state rules and suggest innovative provisions we could safely adapt for federal credit unions.

And as the NCUA Board's liaison to the Small Business Administration, I met with Hector Barreto and we worked hard to change SBA's rules so that credit unions could participate in SBA programs.

With input from you, over the past several years, we've made significant improvements to NCUA's member business loan

regulation. As a result, federal credit unions can now make the same sound business loans which could be approved by state credit unions or guaranteed by SBA. And you can now make loans to virtually every type of small business owner in your field of membership.

Of course, member business lending is risky and it is not for every credit union. But, for those which are qualified, it can open the door to greater earnings while diversifying your assets and helping your members fulfill their dreams.

After tackling member business lending, you told me that as federal charters, you were missing out on investment opportunities. NCUA's investment regulation was putting federal credit unions at a disadvantage because your investments were limited to low-yielding federal securities. You told me that this policy made it extremely difficult for federal credit unions to offer higher savings rates than competitors.

I was convinced that if your credit union has the expertise to handle more complex investments, you should not be forced to short-change your members!

So twice during my term, we made innovative changes to NCUA's investment regulation. Qualified federal credit unions now have a more robust range of investment options that can earn higher returns for your credit unions and higher savings rates for your members.

I appreciate all the advice and expertise that you have so generously shared with me. Discussions with you have made me a better regulator; more in touch with your needs and more aware of NCUA's impact on your operations.

But in addition to regulations, there are other important issues facing credit unions. In fact, some of these issues threaten the very survival of credit unions. NAFCU got it right in calling this conference "Raising the Stakes." For credit unions, the stakes could not be much higher.

With high-powered players in Washington calling for credit unions to be taxed, what's at stake is the future of credit unions.

In addition to bankers and some influential Members of Congress, the suggestion to tax credit unions was also raised recently by a well-known think tank. It was put on the table as a way to fund initiatives to provide equity in education and housing programs.

And as if the threat of taxation is not bad enough, there is increasing discussion about imposing the Community Reinvestment Act (better known as CRA) on credit unions. This has arisen because some Members of Congress are not convinced that credit unions are investing sufficiently in their communities or fulfilling their statutory mission of serving people of modest means.

No doubt about it. These are challenging times for credit unions. As they say here in Las Vegas, the cards have been dealt. The stakes have been raised. And now you have two choices:

You can either fold your hand and get out of the game, or you can up the ante and go “all in!”

Since credit union leaders rarely back down from a challenge, I would not expect you to fold. And why would you fold when you are holding a winning hand! With all the regulatory changes we have made at NCUA, if you play your cards right, you can reach greater fields of membership, provide new members with needed services, and make valuable investments in your communities.

So if you are ready to up the ante and go “all in,” now is the time for you to put all your cards on the table. This means you need to do everything you can to demonstrate that your credit unions are, indeed, earning your tax exemption and investing in your communities.

There are many ways to do this. I’d like to suggest a few:

First, share your largesse. Reach out to everyone in your field of membership. If you don’t, the threat of taxes or CRA will be irrelevant because your credit union may be out of business. I assure you, this is no bluff. Every business day, at least one credit union closes its door forever. With plants closing, businesses downsizing, and jobs being outsourced, credit unions

that rely on a shrinking group of existing members face long odds of remaining viable.

I'm afraid too many of your colleagues are in this situation. This explains why, despite rapidly expanding fields of membership, federal credit unions are increasing actual membership by less than 2 percent a year.

But potential members are all around! They just might not look like your current members. The population growth of Asians and Latinos is soaring, but these groups are under-represented in credit unions. And while the vast majority of credit union members have aged beyond their prime borrowing years, only 5 percent of current members are between the ages of 18 and 24.

If you are not reaching out to these potential membership groups, you are about to fold with a royal flush! What a mistake that would be! Instead, pick up that hand and take a closer look! Look at the schools, churches, new businesses, and community centers in your field of membership. Get to know the community leaders, especially those who represent different

ethnic groups. Hire bi-lingual staff. Publish your materials in all the languages spoken in your community.

And, if you have a community charter, you have a special responsibility to reach out to potential members, especially those who don't have accounts at other insured financial institutions – my second suggestion. This is crucial because many lawmakers think community chartered credit unions are no different than banks. We know this is not true.

But to convince them, you will need to reach out to people with low incomes, minorities, recent immigrants, single mothers and younger people who are ripped off every day by predatory lenders. These potential members are trapped in a vicious cycle of debt.

I say this because each year another 6 million consumers take out a payday loan – but only 1 out of 100 of them are able to pay it off and walk away. More than 90 percent of payday loans are made to borrowers who are forced to refinance at least 5 times per year.

When people need loans as small as \$300 to cover an urgent medical procedure; \$200 to fix their only car; or even \$100 to feed their hungry children, they frequently have no place to turn but to payday lenders, check cashers and pawn shops.

But credit unions can compete with predatory lenders and win this high-stakes game. You can do it by offering small, short-term loans. It's such a simple solution! You can offer the convenience of a payday lender without the outrageous fees and extended terms.

These affordable loans not only bring in new members, but they put the borrowers on firmer financial footing, so they will do more credit union business in the future – like, for instance, get a mortgage loan.

Which brings me to my next suggestion. Credit unions that reach out to renters and help them buy their first home are doing much more than simply making a loan. Owning a home enables people from all walks of life to put down roots in their communities and realize the American dream. It also helps them build wealth.

But for some, the allure of unscrupulous subprime lenders is irresistible -- which is why the subprime lenders' share of the mortgage market is growing steadily. Amazingly, it's over 4 times larger than the market share of credit unions.

The good news is, there are literally millions of opportunities for credit unions to build mortgage market share by appealing to people who don't yet own a home – especially Asians, Latinos, African Americans and young people.

And no credit union is too small to make mortgage loans. Just ask John DuPree, CEO of Shiloh of Alexandria Federal Credit Union. His credit union, which partners with Fannie Mae to make mortgage loans for its members, is only \$1 million in assets.

To learn more about how your credit union can do this, join me, your new Chairman, and Mercy Jimenez of Fannie Mae in a breakout session at 10:15 this morning in the Mandalay K Room. We will discuss creative credit union partnerships which will enable you to make more mortgages.

Doing so will permit you to reach new members who may have thought the dream of homeownership was, in fact, a mirage – because the closer they got, the farther away it appeared. But you can make this dream a reality. What better way to demonstrate how credit unions earn their tax exemption and reinvest in their communities!

However, notwithstanding your best efforts, if people don't have the financial education to understand credit or budgeting, they will have trouble making monthly payments.

So, my final suggestion is to provide that financial education – not only for your current members, but also for your potential members.

And while you're at it, Members of Congress need to be educated, too. They need to learn the lessons that I have learned from you.

I have learned the true meaning of “people helping people”! It means treating each person, regardless of their income or credit

history, with respect and dignity. It means listening to each person's most passionate hopes, and doing everything in your power to help them achieve their highest aspirations. And it means providing the most affordable financial services to people from all walks of life:

- people who come from different cultures, speak different languages, and need a place they can trust to help them build new lives for their families;
- people who are just starting out in the workforce and need help with critical financial decisions that will impact the rest of their lives;
- people who have fallen on hard times, including single mothers and displaced workers who are struggling to feed their families and need alternatives to the predatory lenders which profit from their pain;
- and people who are striving to achieve what may seem to be a lifetime's worth of impossible dreams – whether it's

breaking free of predatory lenders, opening a small business, or owning their first home.

These are the opportunities that credit unions offer to their members. “People helping people” is the philosophy that sets credit unions apart from banks.

Yes, these are challenging times for credit unions. But you have survived challenging times before... And you have made a lasting, positive impact on the lives of millions of members. You should all stand proud on your record of service to members who needed you most.

As I look beyond the end of my term, I believe the future of credit unions will be as robust as your past. I believe that as long as you stay true to your timeless philosophy of “people helping people,” credit unions will not only survive, but thrive, and will continue to make dreams come true for millions more people in the years to come.